2007-05208/

THE ECONOMY IN BRIEF

DEPARTMENT OF FINANCE SEPTEMBER 2000

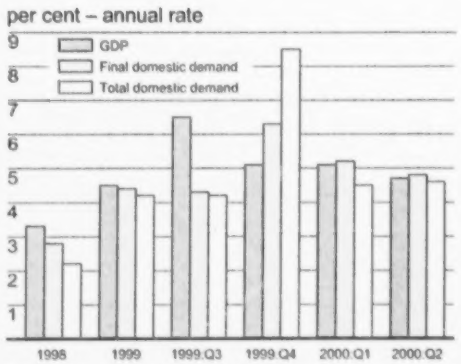
KEY MESSAGES

- In the second quarter of 2000, real gross domestic product (GDP) increased 4.7%, another robust gain following even stronger growth rates of 5.1% in the previous two quarters and 6.5% in the third quarter of 1999. This brought output to 5.3% above its level a year earlier. Investment and trade in high tech products dominated growth in the quarter.
- Both domestic and foreign demand boosted production. Total domestic demand (spending by consumers, business and government on goods, services, housing, plant and equipment and inventory accumulation) increased 4.6%, a pace similar to that of the previous quarter. But foreign demand grew less vigorously than in the earlier quarter: real exports rose 8.5% after jumping 17.5% in the first quarter. However, real import growth, while exceeding that of exports, also weakened, implying that production outside Canada satisfied a smaller part of increased demand than in the earlier quarter.
- The nominal trade surplus fell as both the real trade balance and the terms of trade deteriorated (export prices rose less than import prices). The current account, at $14.3 billion, or 1.4% of nominal GDP, registered a second consecutive large surplus, although it was below the record high achieved in the first quarter.
- Despite modest declines in June and July, net job creation over the past year has been impressive. Employment in July was almost 330,000 above the level of July 1999. The unemployment rate in July 2000 was 6.8%, up modestly from 6.6% in the two previous months.

SUMMARY[1]

In the second quarter of 2000, the Canadian economy continued its solid growth, the 20th consecutive quarterly gain and the longest uninterrupted string of advances since the mid-1960s. Both increased foreign and domestic demand boosted Canadian production. However, growth in foreign demand slowed from its first-quarter pace, reducing overall real GDP growth relative to the previous quarter (Chart 1).

Chart 1
Growth in real GDP and real domestic demand



Final domestic demand is spending by Canadians on goods, services, housing, plant and equipment. Total domestic demand is final domestic demand plus inventory accumulation.

[1] Unless otherwise noted, data and per cent changes are quoted at annual rates. The cut-off date for data is August 31, 2000.

Main economic indicators
(per cent change at annual rates unless otherwise indicated)

	1998	1999	1999:Q4	2000:Q1	2000:Q2	Most recent	
Real gross domestic product	3.3	4.5	5.1	5.1	4.7		–
GDP excluding inventories	3.9	4.7	3.0	5.8	4.9		–
Final domestic demand	2.8	4.4	6.3	5.2	4.8		–
Government expenditure	1.6	2.8	3.8	5.1	2.8		–
Consumer expenditure	2.9	3.5	3.7	3.4	3.6		–
Residential investment	-2.0	6.6	12.1	0.6	-11.0		–
Business fixed investment	6.1	10.5	20.5	15.4	19.5		–
Non-residential construction	1.7	2.0	8.6	10.2	2.9		–
Machinery and equipment	9.0	15.6	27.2	18.1	28.5		–
Business inventory change[1]	-0.5	-0.2	2.0	-0.6	-0.2		–
Trade balance[1]	1.1	0.4	-3.6	1.3	-0.5		–
Exports	8.9	10.0	10.7	17.5	8.5		–
Imports	6.1	9.4	22.1	14.7	10.2		–
Current account balance							
(nominal $ billion)	-16.3	-3.4	-1.3	19.4	14.3		–
(percentage of GDP)	-1.8	-0.4	-0.1	1.9	1.4		–
Real personal disposable income	2.8	2.7	3.4	6.6	6.0		–
Profits before taxes	-5.6	23.7	27.0	35.1	11.3		–
Costs and prices (%, y/y)							
GDP price deflator	-0.6	1.6	3.1	3.6	3.1		–
Consumer price index	0.9	1.7	2.4	2.7	2.4	3.0	Jul-2000
CPI – excluding food and energy	1.3	1.5	1.6	1.5	1.4	1.5	Jul-2000
Unit labour costs	1.4	0.5	0.8	1.8	2.3		
Wage settlements (total)	1.7	2.2	2.9	2.3	2.5	2.7	Jul-2000
Labour market							
Unemployment rate (%)	8.3	7.6	7.0	6.8	6.7	6.8	Jul-2000
Employment growth	2.7	2.8	3.5	3.8	1.6	-1.4	Jul-2000
Financial markets (average)							
Exchange rate (cents U.S.)	67.48	67.32	67.90	68.80	67.56	67.96	31-Aug-2000
Prime interest rate (%)	6.60	6.44	6.42	6.75	7.33	7.50	31-Aug-2000

[1] Annualized change expressed as a percentage of GDP in the previous period.
Sources: Statistics Canada, the Bank of Canada and Human Resources Development Canada.

Canadians purchase more

Real consumer expenditure increased 3.6% in the second quarter, a pace slightly above that of the previous quarter. Spending on services jumped (5.0% versus 1.7% in the first quarter) but growth slowed for expenditures on goods, including durables (3.6%, down from 9.4%). Nonetheless, the pace of increase for durables spending remained healthy.

The gain in personal income (7.9%) was virtually the same as in the first quarter. Labour income registered its strongest growth rate in over 12 years, despite reduced employment gains compared to the first quarter, as the significant pay equity settlement of the federal government sharply boosted this income component.

With personal income taxes rising modestly faster than in the previous quarter, real personal disposable income rose 6.0%, aided by the boost from the pay equity settlement. A recent positive trend has now raised real personal disposable income per capita to a record high. And with disposable income outgrowing nominal consumer spending, the personal savings rate rose to 4.4% from 3.9% in the first quarter.

Investment activity continues strong growth

Business investment in plant and equipment grew faster than in the first quarter, rising 19.5%. Machinery and equipment investment increased sharply by 28.5%, as growth in computers and other office equipment was particulary strong. But non-residential construction growth moderated, with slowdowns in both building and engineering projects.

Residential investment fell in the second quarter. Growth in new construction activity dropped sharply along with housing starts, due partly to a cement truck drivers' strike in the Toronto area. Transfer costs also declined, as sales of existing houses fell slightly from the high level of the previous quarter. Meanwhile, growth in renovations slowed.

Inventory accumulation little changed

Inventory accumulation in the quarter was slightly off that in the first quarter. Businesses raised inventories $7.5 billion following an increase of $7.8 billion in the first quarter. With increased demand boosting sales relatively more than inventories, the economy-wide inventory-to-sales ratio dropped to its lowest recorded level.

Foreign demand boosts production

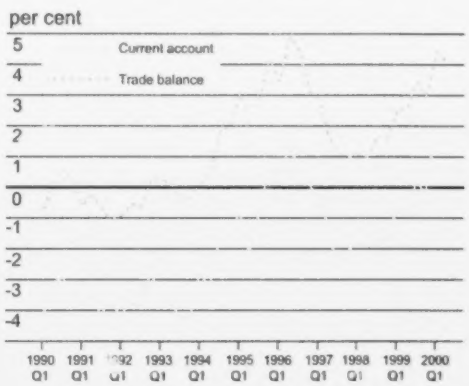
Increased foreign demand boosted real exports from Canada 8.5% in the second quarter, a slower pace than in the first. A dominant factor behind rising exports has been strong growth in the United States and the recovery in nations affected by the financial crisis of 1997-1998. The slowdown in the quarter was largely due to reduced exports of automotive products, consistent with declining motor vehicle sales in the United States.

Meanwhile, growth in total real imports (10.2%) by Canadians outpaced that of exports but was more modest than in the first quarter. This reflected reduced imports of automotive products because of slow growth in sales of vehicles in Canada and less need to import parts to assemble vehicles, due to declining automotive exports to the United States in the quarter.

Another large current account surplus

At $14.3 billion, or 1.4% of nominal GDP, the second-quarter current account surplus was below the record $19.4-billion surplus, or 1.9% of nominal GDP, set in the first quarter (Chart 2). Deteriorations in the real merchandise trade balance, the terms of trade and the travel deficit resulted in a smaller nominal trade surplus than in the first quarter. Along with a worsening in the investment income (especially net retained earnings) deficit and in the net transfers surplus, this yielded a smaller but still large current account surplus in the second quarter. However, the trend has been to a sharply improved current account, which registered deficits of 1.8% of nominal GDP in 1998 and 0.4% in 1999.

Chart 2
Current account as a percentage of nominal GDP



Inflation subdued as productivity jumps

Underlying price and cost pressures remain subdued. The implicit and chain price indices for GDP advanced in the second quarter to levels 3.1% and 3.9% higher than a year earlier. These increases partly reflect the temporary impacts of the pay equity settlement and higher energy prices. And consumer price inflation rose to 3.0% in July on a year-over-year basis, but again the increased pace is largely due to higher energy prices. Core inflation, which excludes food and energy, was only 1.5% in the month on a year-over-year basis.

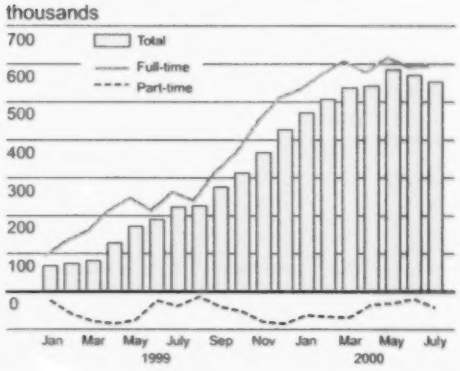
Labour productivity registered a sharper gain in the second quarter than in the first. Despite that, labour costs per unit of output rose noticeably and were 2.3% above their level of a year earlier. But again, much of this is attributable to the temporary impact of the pay equity settlement, which sharply boosted labour income in the quarter.

Pre-tax corporate profits rose 11.3%, the seventh consecutive double-digit increase, to a level 32.2% above that of a year earlier. Profits increased to 12.2% of nominal GDP. The gains were most notable in oil and gas extraction (given higher energy prices), transportation services (given increased shipments and travel in a robustly growing economy), and automotive manufacturing.

Unemployment remains low

Second-quarter employment growth eased to 1.6%, less than half the pace of the first quarter. Nonetheless, even with modest losses in June and July, 126,000 net new jobs have been created so far in 2000 (Chart 3). The total increase since July of 1999 stands at 329,000 jobs. And full-time jobs accounted for the total net gain. The unemployment rate in July 2000 increased modestly to 6.8% from 6.6% in May and June.

Chart 3
Cumulative employment growth since December 1998



The Canadian dollar regains some ground

After trading below 67 cents U.S. during the second half of May, the Canadian dollar increased in value to above 68 cents U.S. in late July before easing back. The dollar closed at 67.96 cents U.S. on August 31.

In recent months, the U.S. Federal Reserve and the Bank of Canada have monitored the impacts of the monetary tightening aimed at staving off inflationary pressures, given tighter labour markets, continued strong domestic demands and firming overseas economies. While administered interest rates have remained steady since the end of May, short-term market interest rates in the United States have increased somewhat while long rates have declined. Long-term interest rates in Canada have declined as well, although not as much as in the United States, while short rates have shown little trend. As a result, interest rates in Canada have generally remained below those in the United States, especially short-term rates. The differential between Canadian and U.S. 3-month Treasury bill yields has moved from near zero at the end of May to near 70 basis points at the end of August.

The main source of data used in this publication is Statistics Canada. Subscription inquiries should be directed to the Distribution Centre at (613) 995-2855. For other inquiries about this publication, contact Mostafa Askari at (613) 992-3055.
Also available on the Internet at http://www.fin.gc.ca/
Cet imprimé est également offert en français.